

CITY STORES COMPANY

and

Consolidated Statements with Subsidiary Companies

Annual Report

to the

Stockholders

JANUARY 31, 1942

BOARDS

q 658.27

U498r

DIRECTORS

GUSTAVE G. AMSTERDAM	Philadelphia, Pa.
ALFRED BLASBAND	Philadelphia, Pa.
SAUL COHN	Newark, N. J.
WILLIAM D. GORDON	Philadelphia, Pa.
ALBERT M. GREENFIELD	Philadelphia, Pa.
WALTER T. GROSSCUP	Philadelphia, Pa.
GEORGE H. JOHNSON	Philadelphia, Pa.
JOHN B. KNOX	Philadelphia, Pa.
JOSEPH H. LOVEMAN	Birmingham, Ala.
PAUL H. SAUNDERS	New Orleans, La.
HARRY W. SCHACTER	Louisville, Ky.
AARON R. SCHARFF	Memphis, Tenn.
HERBERT J. SCHWARTZ	New Orleans, La.
JOHN J. TURTELTAUB	New York, N. Y.

OFFICERS

ALBERT M. GREENFIELD	<i>Chairman of the Board</i>
SAUL COHN	<i>President</i>
DR. WILLIAM D. GORDON	<i>Executive Vice President and Treasurer</i>
MILTON A. KAMSLER	<i>Acting Secretary</i>
IRWIN S. JOSEPH	<i>Assistant Secretary and Assistant Treasurer</i>

TRANSFER AGENT CENTRAL HANOVER BANK & TRUST CO.
70 Broadway, New York, N. Y.

REGISTRAR THE CHASE NATIONAL BANK OF THE
CITY OF NEW YORK
11 Broad Street, New York, N. Y.

AUDITORS ERNST & ERNST
19 Rector Street, New York, N. Y.

May 5, 1942.

To the Stockholders of

CITY STORES COMPANY:

The Annual Report of your Company for the fiscal year ended January 31, 1942 is presented herewith, together with the report by independent auditors, Messrs. Ernst & Ernst.

Following our customary practice this Annual Report includes balance sheets of City Stores Company individually and consolidated with subsidiaries, with separate balance sheets of subsidiary companies, all at January 31, 1942; also, statements of profit and loss and surplus for the fiscal year ended January 31, 1942 of City Stores Company individually and similar statements consolidated with subsidiary companies.

SALES AND EARNINGS

Net sales for the fiscal year (including sales of leased departments) amounted to \$53,872,064, compared with \$45,222,974 for the preceding year, an increase of \$8,649,090, or 19.1%.

Net earnings of store subsidiary companies for the past fiscal year amounted to \$3,658,194, compared with \$2,415,142 for the preceding year. These figures are before deduction of federal and state taxes on income, minority interest proportion and interest on your Company's funded debt, etc., but after elimination of intercompany dividends. Earnings for the past fiscal year on that basis for each separate group of store subsidiary companies, follow:

	<i>Fiscal Year Ended January 31, 1942</i>
Lit Brothers and subsidiary companies.....	\$2,192,744
Maison Blanche Company and its subsidiary company (Maison Blanche Realty Company).....	645,752
Loveman, Joseph & Loeb and its subsidiary company (Home Finance Corporation).....	408,194
B. Lowenstein & Bros., Inc.....	262,329
Kaufman-Straus Company, Inc., and its subsidiary company (Homecraft Finance Corporation of Louisville).....	149,175
	\$3,658,194

From these earnings there must be deducted the sum of \$447,684 representing proportion of such earnings applicable to preferred and common stocks of subsidiaries not owned by City Stores Company, \$268,229 representing interest on funded debt of your Company and sundry items (net) relating to its operations and those of City Stores Mercantile Company for the year, and federal and state taxes of \$1,534,105 on income, after which deductions there remains a net profit of \$1,408,175 applicable to City Stores Company, compared with \$1,139,962 for the preceding year.

The accompanying financial statements for the fiscal year ended January 31, 1942 reflect the adoption of the "last-in, first-out" principle of determining cost for inventory purposes, deemed advisable by reason of extensive increases in cost of merchandise purchased during the year. The general basis of our inventory valuation on the retail inventory method has been continued as heretofore, and the change to the "last-in, first-out" principle of determining cost is believed desirable by the Directors in order to largely remove the effect of unrealized inventory appreciation from balance sheet values and from earnings. This change reduced merchandise inventories at the close of the fiscal year by \$783,688, with a corresponding reduction in net profit before deducting taxes on income; after providing for taxes on income this change had the effect of reducing net profit for the year by approximately \$322,000. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, and is subject to acceptance by the Commissioner of Internal Revenue. Net earnings for the past fiscal year also have been reduced by approximately \$70,000 to reflect adoption of the practice of eliminating cash discounts from merchandise inventories.

Provision for depreciation and amortization of buildings, fixtures, equipment and improvements has been charged against earnings during the past fiscal year in accordance with our consistent policy and amounted to \$598,113, compared with \$537,095 for the preceding year.

While net profit applicable to City Stores Company for the past fiscal year increased to \$1,408,175 from \$1,139,962, it is of interest to note that the provision for federal and state taxes on income applicable to that year amounts to \$1,534,105 compared with \$581,307 for the preceding year.

FINANCIAL CONDITION

Pursuant to our established practice of many years standing, the independent auditors, together with representatives of the managements of our various stores, have supervised inventory procedure and made tests of quantities and basis of valuation.

Inventories at January 31, 1942 are carried at \$6,902,554, after applying reserves of \$212,522. This inventory valuation, which is stated after reduction of \$783,688 caused by adoption of "last-in, first-out" inventory principle previously described, is \$976,707 greater than at the close of the preceding year. This increase is due to generally prevailing higher prices and the need for maintaining heavier than normal stocks because of uncertainties in deliveries.

At January 31, 1942 net current assets of the consolidated companies were \$12,759,303, or \$989,843 greater than they were a year ago. Consolidated earned surplus at the close of the year amounted to \$5,027,782, an increase of \$1,275,429 over the balance in that account at the beginning of the year.

Mortgage debts outstanding at the beginning of the fiscal year were reduced by \$304,000. During the year, however, \$800,000 was borrowed by a subsidiary company on a mortgage covering the new warehouse property owned by Buttonwood Warehouse Company, a wholly owned subsidiary of Lit Brothers, which loan bears interest at 3¾% per annum and is repayable in quarterly installments over a period of twelve years. Maison Blanche Realty Company increased its mortgage debt by \$75,000 in connection with the acquisition of additional property in New Orleans during the year.

Long term notes representing funds borrowed to finance installation of major improvements at our department store subsidiaries have been reduced by \$317,000 during the year.

FUNDED DEBT OF CITY STORES COMPANY

Interest due on funded debt of your Company during the past fiscal year has been paid. In addition, the principal amount of this funded debt was reduced by payments of \$263,000 during the year.

As stated in previous reports to stockholders, cash dividends from collateral held under indentures securing this funded debt first must be used for payment of interest on that funded debt and then used to comply with their sinking fund provisions. The related indentures call for annual payments commencing with the year ended October 1, 1935 of \$140,000 per year on 6% Lit Stock Collateral Convertible Notes and \$120,000 per year on 6% General Collateral Convertible Notes. These sinking fund requirements are cumulative, but failure to provide the specified amounts does not constitute a default. The arrears in the sinking funds amount to \$1,124,500 as of January 31, 1942, and the notes mature on October 1, 1944.

GENERAL

The number of capital shares of City Stores Company outstanding remains at 1,210,042-4/12, of which 501 shares are held in the treasury. These shares constitute the only outstanding stock of your Company.

During the year, Loveman, Joseph & Loeb, for the purpose of expansion of its warehouse facilities, purchased, through a wholly owned subsidiary, a plot opposite its present warehouse location in Birmingham. Also, during the past year, Maison Blanche Realty Company purchased a piece of property adjacent to our department store in New Orleans and this acquisition will make it possible to increase the facilities at that location to a desirable extent. Lit Brothers acquired during the year the remaining 50% of the stock of WFIL Broadcasting Company, thus consummating 100% ownership in that company.

The physical condition of all properties owned by our subsidiary companies has been adequately maintained during the year.

Our shareholders undoubtedly are aware of the many new and serious problems which are confronting all forms of mercantile business today, with continued reduction in available supply of desirable merchandise for consumer needs, shifting of personnel to military and defense occupations, effect of rationing of goods, control and restriction of consumer credits, inauguration of price ceilings, etc. While these unquestionably will have a decided effect upon the operations of our department stores, they are matters arising out of the national war effort which means so much to us all and in support of which our managements and our co-workers are cooperating in every way.

For the Directors.

ALBERT M. GREENFIELD,
Chairman of the Board.

SAUL COHN,
President.

ERNST & ERNST

19 RECTOR STREET

NEW YORK

BOARD OF DIRECTORS,
CITY STORES COMPANY,
WILMINGTON, DELAWARE.

We have examined the consolidated balance sheet of CITY STORES COMPANY and its subsidiaries and the balance sheets of the individual companies as of January 31, 1942, and the statements of profit and loss and surplus of CITY STORES COMPANY and the consolidated statements of profit and loss and surplus of that Company and its subsidiaries for the fiscal year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Our examination included tests of accounts receivable of all companies by direct communication with a selected number of customers. We were present at stores at appropriate times during the taking of inventories and observed procedures followed by the companies in determination of quantities and made test counts of quantities.

In our opinion, the accompanying consolidated balance sheet and individual balance sheets and related statements of profit and loss and surplus present fairly the consolidated position of CITY STORES COMPANY and its subsidiaries and of the individual companies at January 31, 1942 and consolidated results of their operations and of the operations of CITY STORES COMPANY for the year in conformity with generally accepted accounting principles, which, except for the changes (which we approve) in the methods of pricing inventories referred to in Notes A and B to the financial statements, have been applied on a basis consistent with that of the preceding year.

ERNST & ERNST

April 30, 1942.

CITY STORES

BALANCE

JANUARY

ASSETS

CURRENT ASSETS:

Cash.....		\$	1,896.88
-----------	--	----	----------

DEPOSITS UNDER INDENTURES SECURING FUNDED DEBT—Note A:

Cash for interest, sinking fund requirements, and retirement of funded debt.....	\$	17,972.54	
Dividend note of subsidiary company due January 28, 1943 (pledged as collateral to funded debt).....		199,915.00	217,887.54

INVESTMENTS IN AND ACCOUNTS RECEIVABLE FROM

SUBSIDIARY COMPANIES:

City Stores Company proportion of net tangible assets of subsidiary companies based on their balance sheets at January 31, 1935, plus \$105,427.10 representing dividend paid to City Stores Company by one subsidiary company in capital stock of another subsidiary out of earnings subsequent to January 31, 1935 and plus \$33,038.35 representing cancellation of subsidiary company's indebtedness to City Stores Company at January 31, 1937—Note B:

Unpledged.....	\$	62,504.46	
Pledged.....		13,592,293.11	\$13,654,797.57
Accounts receivable.....		72,108.76	13,726,906.33

DEFERRED CHARGES:

Prepaid tax and expense.....		1,711.52
		<u>\$13,948,402.27</u>

The notes on following page are an

COMPANY, (Individually)

SHEET

31, 1942

LIABILITIES

CURRENT LIABILITIES:

Notes payable—unsecured.....	\$	95,000.00	
Accounts payable.....		6,081.73	
Accrued accounts:			
Interest on funded debt.....	\$	108,798.00	
Taxes, state franchise, etc.....		10,036.63	
Federal tax on income—estimated—Note F.....		15,600.00	134,434.63

TOTAL CURRENT LIABILITIES..... \$ 235,516.36

FUNDED DEBT—Note A:

Ten Year 6% Lit Stock Collateral Convertible			
Notes—due October 1, 1944:			
Authorized and issued.....	\$	3,500,000.00	
Less retired.....		647,000.00	\$ 2,853,000.00
Ten Year 6% General Collateral Convertible			
Notes—due October 1, 1944:			
Authorized and issued.....	\$	3,000,000.00	
Less retired.....		413,100.00	2,586,900.00
			5,439,900.00

CAPITAL STOCK AND SURPLUS:

Capital stock—par value \$5.00 per share:			
Class A—6% cumulative—authorized and unissued 700,000			
shares (570,600 shares reserved for conversion of Ten Year 6%			
Lit Stock Collateral Convertible Notes)			
Common:	Shares	Shares	
Authorized.....		1,900,000	
Less: Reserved for conversion			
of Ten Year 6% General			
Collateral Convertible			
Notes.....	517,380		
In treasury.....	501		
Unissued and available for			
general corporate pur-			
poses.....	172,577-8/12	690,458-8/12	
Outstanding—Note C.....		1,209,541-4/12	\$ 6,047,706.66
Surplus:			
Capital surplus.....		\$ 1,053,623.05	
Earned surplus (since February 1, 1935)—			
Notes D and E.....		1,171,656.20	2,225,279.25
			8,272,985.91
			<u>\$13,948,402.27</u>

CONTINGENT LIABILITY:

Note F

integral part of this balance sheet.

NOTES TO BALANCE SHEET OF CITY STORES COMPANY (Individually)

JANUARY 31, 1942

NOTE A—Represents \$5,977.64 to apply against interest and sinking fund requirements on funded debt as of January 31, 1942 and \$11,994.90 for reduction of funded debt. Dividend note of subsidiary company in the amount of \$199,915.00, due January 28, 1943, under the terms of the indenture will be used for reduction of funded debt. As of January 31, 1942 unpaid sinking fund requirements totalled \$1,124,500.00.

NOTE B—City Stores Company's portion of net tangible assets of subsidiary companies based on their balance sheets at January 31, 1942 amounted to \$17,729,023.06.

NOTE C—Includes shares to be issued to complete exchange of stock under prior capitalization.

NOTE D—Including \$2,505.00 reserved for common stock held in treasury.

NOTE E—In accordance with the terms of both indentures securing funded debt of the Company, the Company, so long as any of the 6% Collateral Convertible Notes issued under either indenture are outstanding, will not declare, pay or set apart for payment cash dividends upon its common stock except out of surplus earned subsequent to October 1, 1934. (See note to City Stores Company profit and loss statement.)

NOTE F—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income. No provision is required for federal excess profits tax, as exemption available exceeds net income of the Company subject to that tax.

At January 31, 1942 City Stores Company was guarantor of notes payable to bank by a subsidiary company (City Stores Mercantile Company) in the amount of \$97,550.00.

CITY STORES COMPANY (Individually)

PROFIT AND LOSS STATEMENT

YEAR ENDED JANUARY 31, 1942

INCOME:

Dividends received in cash:		
From subsidiary companies.....	\$610,832.00	
Payments by subsidiary companies for management, advisory and sales service, less net amounts transferred to City Stores Mercantile Company (a wholly owned subsidiary) for buying services.....	192,980.51	
Interest on dividend note given by subsidiary company.....	7,996.60	
Miscellaneous.....	4,524.21	\$816,333.32

DEDUCTIONS:

General expenses.....		135,037.95
		<u>\$681,295.37</u>
Interest on funded debt:		
On Ten Year 6% Lit Stock Collateral Convertible Notes....	\$182,290.67	
On Ten Year 6% General Collateral Convertible Notes....	155,214.00	337,504.67
		<u>\$343,790.70</u>

FEDERAL TAX ON INCOME:

Provision for the year—estimated.....		15,491.35
		<u>\$328,299.35</u>

NET PROFIT.....

NOTE A—Cash dividends from collateral held by Trustees under indentures must first be used by Trustees for payment of interest on funded debt and then used to comply with sinking fund provisions of indentures covering funded debt, which specify that annual payments shall be made commencing with the year ended October 1, 1935 of \$140,000.00 per year on 6% Lit Stock Collateral Convertible Notes and \$120,000.00 per year on 6% General Collateral Convertible Notes. Income received from \$199,915.00 note of Maison Blanche Company due January 28, 1943, issued by that company in payment of a dividend and deposited with Trustee under indenture securing General Collateral Convertible Notes, is to be applied in reduction of funded debt. Under the terms of the indentures, provisions for sinking funds are cumulative, but failure to provide the specified amounts does not constitute a default. As of January 31, 1942 unpaid sinking fund requirements aggregated \$1,124,500.00, and Trustees held therefor cash in the amount of \$1,084.64 at that date.

NOTE B—No provision is required for federal excess profits tax, as exemption available exceeds net income of the Company subject to that tax under existing law.

EARNED SURPLUS

YEAR ENDED JANUARY 31, 1942

Balance at February 1, 1941.....	\$843,356.85
Add net profit for year as above.....	328,299.35
	<u>\$1,171,656.20</u>

BALANCE AT JANUARY 31, 1942.....

CITY STORES COMPANY AND

CONSOLIDATED

JANUARY

ASSETS

CURRENT ASSETS:

Cash.....	\$ 3,293,822.73
Marketable securities (including U. S. Government securities of \$16,581.25) at quoted market prices.....	71,831.25
Accounts receivable from customers (including \$4,481,551.63 of installment accounts) less reserves of \$513,220.95.....	10,143,428.28
Notes and accounts receivable from vendors and tenants, less reserve of \$10,000.00.....	132,258.00
Merchandise inventories, less reserves of \$212,522.23 as shown in subsidiary companies balance sheets—Notes A and B.....	6,902,554.11
TOTAL CURRENT ASSETS.....	\$20,543,894.37

CASH WITH DEPOSITARIES UNDER INDENTURES SECURING FUNDED DEBT—Note C:

For interest, sinking fund requirements and retirement of funded debt.....	17,972.54
--	-----------

INVESTMENTS AND OTHER ASSETS:

Sundry investments, less reserves of \$9,034.91.....	\$ 199,175.84
Officers, employees and sundry notes and accounts receivable, deposits, etc.....	178,950.48
Claims against closed banks, less reserves of \$41,677.65.....	29,130.25
Cash surrender value of life insurance.....	40,024.93
Stock of City Stores Company (516 shares of common stock owned by subsidiaries).....	1,577.76
	448,859.26

LAND, BUILDINGS, EQUIPMENT AND IMPROVEMENTS—Note D:

Land.....	\$10,806,998.91
Buildings, fixtures and equipment.....	\$16,599,773.22
Less reserves for depreciation.....	6,750,159.86
	9,849,613.36
Improvements to leased properties.....	\$ 476,235.22
Less reserves for amortization.....	220,971.54
	255,263.68
	20,911,875.95

GOOD WILL (carried on books of subsidiaries in total amount of \$2,792,158.27).....	1.00
---	------

DEFERRED CHARGES:

Prepaid insurance, unamortized mortgage expense, inventories of supplies, prepaid taxes and expenses.....	564,301.34
---	------------

NOTE A—Inventories of merchandise on hand and in transit are valued on the retail inventory method, using the principle (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost. Such basis, which represents a change from the principle previously used, had the effect of reducing the amount stated for inventories at January 31, 1942 by \$783,688.57 and reducing net profit for the year then ended (after income, surtax and excess profits taxes) by approximately \$322,000.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, and is subject to acceptance by the Commissioner of Internal Revenue.

NOTE B—As of February 1, 1941 the companies adopted the practice of eliminating cash discounts from merchandise inventories and the amount stated in the accompanying consolidated balance sheet is after deducting such discounts. This change in practice has resulted in a charge of \$185,757.15 to earned surplus (being the amount of the discount applicable to prior years) and had the effect of reducing consolidated earnings for the year ended January 31, 1942 by approximately \$70,000.00.

NOTE C—Reference is made to Notes A to the balance sheet and to the profit and loss statement of City Stores Company in which the amount of funds available for interest, sinking fund requirements and retirement of funded debt are stated and provisions of indenture securing funded debt of the Company are given with respect to the effect upon surplus and income available for dividends. A note of \$199,915.00 issued by a subsidiary company to City Stores Company as a dividend, and eliminated in this consolidated statement, has been deposited with Trustee under indenture securing General Collateral Convertible Notes. This note is due January 28, 1943 and under the terms of the indenture will be used for reduction of funded debt.

NOTE D—Stated at cost to subsidiary companies paid for either in cash or in capital stock at time of organization, except Kaufman-Straus Company, Inc., where furniture, fixtures, improvements to leased buildings, etc., are stated at sound value as determined in January, 1936, by The American Appraisal Company, plus subsequent additions at cost, less accruing depreciation, and less subsequent write-down in the case of Kenville Realty Company.

NOTE E—Includes shares to be issued to complete exchange of stock under prior capitalization.

NOTE F—Including \$2,505.00 reserved for common stock held in treasury.

NOTE G—Reference is made to the pertinent notes appearing on the accompanying balance sheets of City Stores Company and subsidiary companies.

NOTE H—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income. The provision for estimated federal and state taxes on income includes \$391,500.00 for federal excess-profits taxes on income of two subsidiary companies; no provision is required for excess-profits taxes on income of City Stores Company and other subsidiaries as exemptions available to such companies exceed their net income for the past fiscal year subject to that tax.

\$42,486,904.46

SUBSIDIARY COMPANIES

BALANCE SHEET

31, 1942

LIABILITIES

CURRENT LIABILITIES:

Notes payable:

Banks—for borrowed money.....	\$ 447,550.00	
Bank loan installments due in 1942.....	317,000.00	
Other.....	97,095.52	\$ 861,645.52
First mortgage installments due in 1942.....		403,840.92

Accounts payable:

Trade creditors, etc.....	\$3,977,688.48	
Federal and state pay roll taxes.....	57,266.37	4,034,954.85

Accrued accounts:

Interest on mortgages, salaries, wages, taxes, etc.....	\$ 777,968.00	
Federal and state taxes on income—estimated—Notes A and H	1,597,383.41	
Interest on funded debt.....	108,798.00	2,484,149.41

TOTAL CURRENT LIABILITIES..... \$ 7,784,590.70

DEFERRED LIABILITIES:

Notes payable to banks due 1942-1947.....	\$1,751,000.00	
Less installments included in current liabilities as above.....	317,000.00	\$1,434,000.00
Paving assessment due subsequent to January 31, 1943.....	1,993.62	1,435,993.62

FIRST MORTGAGES:

Payable by subsidiary companies.....	\$9,187,000.00	
Less installments included in current liabilities as above.....	403,840.92	8,783,159.08

FUNDED DEBT—CITY STORES COMPANY—Note C:

Ten Year 6% Lit Stock Collateral Convertible Notes—due October 1, 1944:		
Authorized and issued.....	\$3,500,000.00	
Less retired.....	647,000.00	\$2,853,000.00
Ten Year 6% General Collateral Convertible Notes—due October 1, 1944:		
Authorized and issued.....	\$3,000,000.00	
Less retired.....	413,100.00	2,586,900.00
		5,439,900.00

RESERVES FOR REDEMPTION OF TRADING STAMPS, CONTINGENCIES, ETC.....

681,594.93

DEFERRED INCOME:

Unearned carrying charges on installment sales.....	119,000.92
---	------------

MINORITY INTEREST:

Preferred stock of subsidiary companies out- standing—at par value.....	\$3,888,200.00	
Accrued undeclared dividends to January 31, 1942	1,180,749.34	\$5,068,949.34
Common stock—subsidiary companies.....	\$ 318,062.00	
Surplus applicable thereto.....	508,442.47	826,504.47
		5,895,453.81

CAPITAL STOCK AND SURPLUS:

Capital stock—par value \$5.00 per share:

Class A—6% cumulative—authorized and unissued 700,000
shares (570,600 shares reserved for conversion of Ten Year 6%
Lit Stock Collateral Convertible Notes)

Common:	Shares	Shares	
Authorized.....		1,900,000	
Less: Reserved for conversion of Ten Year 6% General Col- lateral Convertible Notes..	517,380		
In treasury.....	501		
Unissued and available for general corporate purposes.	172,577-8/12	690,458-8/12	
Outstanding—Note E.....		1,209,541-4/12	\$6,047,706.66

Surplus:

Capital surplus.....	\$1,271,722.61	
Earned surplus (since February 1, 1935)—Note F	5,027,782.13	6,299,504.74
		12,347,211.40
		<u>\$42,486,904.46</u>

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

COMPARATIVE CONSOLIDATED PROFIT AND LOSS STATEMENT

	Year Ended January 31, 1942	Year Ended January 31, 1941	Year Ended January 31, 1940
NET SALES, including sales of leased departments....	\$53,872,064	\$45,222,974	\$41,450,777
COST OF GOODS SOLD.....	34,985,549	29,179,577	26,689,079
GROSS PROFIT ON SALES.....	\$18,886,515	\$16,043,397	\$14,761,698
INCOME FROM BROADCASTING AND INSTALLMENT ACCOUNT CARRYING CHARGES.....	712,169	321,514	293,040
TOTAL GROSS PROFIT.....	\$19,598,684	\$16,364,911	\$15,054,738
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES	14,897,657	13,057,460	12,194,276
	\$ 4,701,027	\$ 3,307,451	\$ 2,860,462
OTHER INCOME:			
Interest.....	44,571	48,044	40,228
Rentals.....	196,946	185,334	190,686
Profit on sale of securities—net.....	73,255	19,304	9,640
Dividends.....	51,921	47,902	48,334
Discounts earned on expense invoices.....	45,163	37,728	37,861
Miscellaneous.....	72,176	56,364	40,251
TOTAL OTHER INCOME.....	\$ 484,032	\$ 394,676	\$ 367,000
	\$ 5,185,059	\$ 3,702,127	\$ 3,227,462
OTHER CHARGES:			
Interest on mortgages, notes payable, etc.....	479,716	482,543	473,117
Provision for depreciation and amortization....	598,113	537,095	509,300
Provision for sundry charges, doubtful accounts, etc. (net).....	379,761	240,298	292,533
	\$ 1,457,590	\$ 1,259,936	\$ 1,274,950
PROFIT BEFORE FOLLOWING DEDUCTIONS	\$ 3,727,469	\$ 2,442,191	\$ 1,952,512
FEDERAL AND STATE TAXES ON INCOME—estimated —Note A.....	1,534,105	581,307	434,390
	\$ 2,193,364	\$ 1,860,884	\$ 1,518,122
Amount of net profit of subsidiaries applicable to preferred and common stocks of subsidiary com- panies not owned by City Stores Company.....	447,684	375,840	311,002
PROFIT APPLICABLE TO CITY STORES COMPANY BEFORE DEDUCTING INTEREST ON FUNDED DEBT.....	\$ 1,745,680	\$ 1,485,044	\$ 1,207,120
Interest on City Stores Company's funded debt.....	337,505	345,082	347,820
NET PROFIT FOR PERIOD—Note B.....	\$ 1,408,175	\$ 1,139,962	\$ 859,300

NOTE A—The above provision for federal and state taxes on income for the fiscal year ended January 31, 1942 includes \$391,500.00 for estimated federal excess-profits taxes on income of two subsidiary companies; no provision is required for excess-profits taxes on income of City Stores Company and other subsidiaries for that year or on income of all companies for the preceding year as exemptions available to such companies exceed their net income for the years subject to that tax.

NOTE B—For the fiscal year ended January 31, 1942 the companies adopted changes in accounting practices with respect to valuation of inventories and treatment of cash discounts, as described in Notes A and B to the accompanying consolidated balance sheet. These changes had the effect of reducing consolidated net profit for the fiscal year ended January 31, 1942 by approximately \$392,000.00.

NOTE C—The above statement of profit and loss is subject to the pertinent notes on the financial statements of the respective companies for the three fiscal years.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED SURPLUS

YEAR ENDED JANUARY 31, 1942

CAPITAL SURPLUS:

Balance at February 1, 1941..... \$1,227,751.62

Add:

Capital and surplus of subsidiary (acquired during year) in excess of cost....	\$61,245.68	
Less proportion applicable to minority interest.....	19,226.86	\$ 42,018.82

Transfer from minority interest in preferred stock of subsidiaries the amount of accrued undeclared dividends on such stock acquired by a wholly owned subsidiary during year (applicable to periods prior to reorganization of City Stores Company on January 31, 1935).....	11,705.58	53,724.40
---	-----------	-----------

\$1,281,476.02

Deduct:

Excess of purchase price over amount represented by par value of shares of subsidiary company acquired during year.....	\$ 7,507.39	
---	-------------	--

Expenses of a subsidiary company in connection with a voluntary agreement with stockholders for exchange of capital shares of that subsidiary.....	2,246.02	9,753.41
--	----------	----------

CAPITAL SURPLUS—BALANCE—JANUARY 31, 1942.....		\$1,271,722.61
---	--	----------------

EARNED SURPLUS:

Balance at February 1, 1941..... \$3,752,353.46

Add:

Consolidated net profit applicable to City Stores Company for year ended January 31, 1942.....	\$1,408,174.95	
--	----------------	--

Transfer from minority interest in preferred stock of subsidiaries the amount of accrued undeclared dividends on such stock acquired by a wholly owned subsidiary during year (applicable to periods subsequent to reorganization of City Stores Company on January 31, 1935).....	21,661.50	1,429,836.45
--	-----------	--------------

\$5,182,189.91

Deduct:

Adjustment to reflect elimination of cash discounts from inventories as at January 31, 1941 (See Note B to consolidated balance sheet).	\$ 185,757.15	
---	---------------	--

Less proportion applicable to minority interest	31,349.37	154,407.78
---	-----------	------------

EARNED SURPLUS—BALANCE—JANUARY 31, 1942.....		5,027,782.13
--	--	--------------

TOTAL SURPLUS—BALANCE—JANUARY 31, 1942.....		\$6,299,504.74
---	--	----------------

LIT BROTHERS AND

CONSOLIDATED

JANUARY

ASSETS

CURRENT ASSETS:

Cash.....	\$ 2,457,059.80
Marketable securities (including U. S. Government securities of \$16,581.25) at market values.....	71,831.25
Accounts receivable:	
Customers' charge accounts.....	\$ 3,120,492.95
Customers' installment accounts.....	3,250,994.18
Creditors' debit balances.....	75,740.51
	<u>\$ 6,447,227.64</u>
Less reserve.....	275,160.14
	<u>6,172,067.50</u>
Merchandise inventories—Notes A and B.....	3,060,410.28
	<u>6,172,067.50</u>
TOTAL CURRENT ASSETS.....	<u>\$11,761,368.83</u>

INVESTMENTS AND OTHER ASSETS:

Mortgages receivable and sundry investments.....	\$ 147,662.10
Sundry accounts receivable, deposits and cash in closed banks...	78,741.37
Officers' and employees' notes and accounts receivable.....	89,919.54
	<u>316,323.01</u>

PROPERTY, PLANT AND EQUIPMENT—Note C:

Land, buildings, fixtures and equipment.....	\$18,982,764.18
Less reserves for depreciation.....	4,025,644.08
	<u>14,957,120.10</u>

GOOD WILL..... 1,046,783.23

DEFERRED CHARGES:

Unamortized mortgage expense, inventory of supplies, prepaid insurance, taxes and expenses.....	333,799.16
---	------------

NOTE A—Inventories of merchandise on hand and in transit are valued on the retail inventory method, using the principle (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost. Such basis, which represents a change from the principle previously used, had the effect of reducing the amount stated for inventories at January 31, 1942 by \$343,825.09 and reducing net profit for the fiscal year then ended (after income, surtax and excess profits taxes) by approximately \$95,000.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, which is subject to acceptance by the Commissioner of Internal Revenue.

NOTE B—As of February 1, 1941 the Company adopted the practice of eliminating cash discounts from merchandise inventories and the amount stated in the accompanying balance sheet is after deducting such discounts. This change in practice has resulted in a charge of \$99,840.86 to earned surplus (being the amount of the discount applicable to prior years) and had the effect of reducing earnings for the fiscal year ended January 31, 1942 by approximately \$24,000.00.

NOTE C—Stated at cost paid for in capital stock at time of organization, plus subsequent additions at cost and less provision for accruing depreciation.

NOTE D—An agreement in connection with issuance of serial notes provides, among other things, including provisions respecting net current assets, that while any of such notes are outstanding the Company will not declare or pay any dividends (other than dividends payable in stock of the Company), purchase, redeem or otherwise retire any shares of any class of its stock or make any other distribution in respect thereof which will reduce earned surplus of the Company below \$3,000,000.00.

NOTE E—Accumulated unpaid and undeclared dividends at January 31, 1942 amounted to \$2,784,087.00 of which \$1,743,480.00 is applicable to preferred stock owned by City Stores Company.

NOTE F—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income.

\$28,415,394.33

SUBSIDIARY COMPANIES

BALANCE SHEET

31, 1942

LIABILITIES

CURRENT LIABILITIES:

Serial note payable August 15, 1942—Note D.....	\$	250,000.00
First mortgage installments due in 1942.....		373,840.92
Accounts payable.....		1,795,696.37
Accrued accounts.....		453,691.65
Federal, state and local taxes (including federal excess profits taxes of \$293,000.00)—estimated—Note F.....		1,151,943.08

TOTAL CURRENT LIABILITIES.....	\$	4,025,172.02
--------------------------------	----	--------------

RESERVES:

For redemption of trading stamps.....	\$	454,434.55
For self insurance and contingencies.....		49,083.28
		503,517.83

SERIAL NOTES PAYABLE TO BANK—Note D:

Due \$250,000.00 annually 1942 to 1947.....	\$	1,500,000.00
Less amount included in current liabilities.....		250,000.00
		1,250,000.00

FIRST MORTGAGES ON LAND AND BUILDINGS:

Due semi-annually 1942 to 1947.....	\$6,052,000.00	
Due quarterly 1942 to 1954 (payable by sub- sidiary).....	800,000.00	\$ 6,852,000.00
Less installments included in current liabilities.....		373,840.92
		6,478,159.08

DEFERRED INCOME:

Unearned carrying charges on installment sales.....		119,000.92
---	--	------------

CAPITAL STOCK AND SURPLUS:

Capital stock:

Preferred 6% cumulative, par value \$100.00 per share, redeem- able at \$105.00 per share:	
Authorized 120,000 shares; outstanding 96,003 shares, after deducting 23,997 shares in treasury.....	\$ 9,600,300.00

Common, no par value:

Authorized and issued 1,000,000 shares; outstanding 999,145 shares, after deducting 855 shares in treasury....	999,145.00
---	------------

\$10,599,445.00

Surplus—Note E:

Capital.....	\$	168,808.18
Earned.....		5,271,291.30
		5,440,099.48
		16,039,544.48

\$28,415,394.33

MAISON BLANCHE COMPANY

BALANCE SHEET

JANUARY 31, 1942

ASSETS

CURRENT ASSETS:

Cash.....	\$ 259,844.10
Accounts receivable—trade (including \$505,598.71 of installment accounts) less reserve of \$82,351.58 for doubtful.....	1,665,768.88
Merchandise inventories, less reserve of \$40,000.00—Notes A and B.....	1,728,247.46
TOTAL CURRENT ASSETS.....	\$3,653,860.44

AFFILIATED COMPANIES:

Accounts receivable.....	1,719.59
--------------------------	----------

INVESTMENTS AND OTHER ASSETS:

Investment in affiliated company—book carrying amount (94 shares common stock of City Stores Company).....	\$ 470.01	
Investments in other companies.....	46,700.00	
Sundry accounts receivable and advances and cash in closed banks, less reserve of \$17,130.45.....	9,385.26	56,555.27

INVESTMENTS IN SUBSIDIARY COMPANIES:

Maison Blanche Realty Company:

Investment in 6,250 shares of common stock (representing 87.72% of outstanding stock)—at cost (Maison Blanche Company's proportion of net tangible assets as shown by this company's balance sheet at January 31, 1942 amounted to \$1,131,377.58).....	\$ 789,147.90	
---	---------------	--

B. Lowenstein & Bros., Inc.:

Investment in 11,450 shares of common stock (its entire outstanding capital stock)—at cost (net tangible assets as shown by this subsidiary company's balance sheet at January 31, 1942 amounted to \$1,853,268.23).....	\$2,219,411.38	
Account receivable.....	987.95	2,220,399.33
		3,009,547.23

EQUIPMENT AND IMPROVEMENTS—AT COST:

Furniture, fixtures and equipment.....	\$ 862,299.55	
Less reserves for depreciation.....	526,073.81	\$ 336,225.74
Improvements to leased properties.....	\$ 207,702.63	
Less reserve for amortization.....	136,030.02	71,672.61
		407,898.35

GOOD WILL—as stated on books.....

376,031.24

DEFERRED CHARGES:

Inventory of supplies, prepaid insurance, taxes and expenses.....	94,285.50
	<u>\$7,599,897.62</u>

LIABILITIES

CURRENT LIABILITIES:

Notes payable to banks.....	\$ 200,000.00
Notes payable to affiliated companies—dividend notes due January 28, 1943.....	199,925.00
Accounts payable, including \$35,203.66 to affiliated companies.....	989,491.43
Accrued salaries, taxes and expenses.....	101,380.24
Federal and state taxes on income—estimated—Note E.....	200,000.00
TOTAL CURRENT LIABILITIES.....	\$1,690,796.67

RESERVES FOR INSURANCE, ETC.....

7,297.94

CAPITAL STOCK AND SURPLUS:

Capital stock:		
Common stock—par value \$50.00 per share:		
Authorized 120,000 shares; 80,000 shares issued.....	\$4,000,000.00	
Surplus:		
Capital surplus.....	\$ 250,000.00	
Earned surplus.....	1,651,803.01	1,901,803.01
		<u>\$7,599,897.62</u>

CONTINGENT LIABILITIES:

As guarantor of the following:

Notes payable of Maison Blanche Realty Company in the amount of \$200,000.00—Note D.

Customers accounts financed in the amount of \$2,330.97.

On realty leases of Maison Blanche Realty Company, the annual rental of which is \$8,000.00 plus insurance and realty taxes to September 30, 1971.

NOTE A—Inventories of merchandise on hand and in transit are valued on the retail inventory method, using the principle (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost. Such basis, which represents a change from the principle previously used, had the effect of reducing the amount stated for inventories at January 31, 1942 by \$178,672.27 and reducing net profit for the fiscal year then ended (after income and surtax taxes) by approximately \$115,000.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, and is subject to acceptance by the Commissioner of Internal Revenue.

NOTE B—As of February 1, 1941 the Company adopted the practice of eliminating cash discounts from merchandise inventories and the amount stated in the accompanying balance sheet is after deducting such discounts. This change in practice has resulted in a charge of \$30,378.00 to earned surplus (being the amount of the discount applicable to prior years) and had the effect of reducing earnings for the fiscal year ended January 31, 1942 by approximately \$19,000.00.

NOTE C—All gross profit and carrying charges are taken into income account in year in which sales are made.

NOTE D—In connection with the guarantee of these notes the Company entered into an agreement which, among other things, including provisions respecting current assets and current liabilities, provides that while any of such notes are outstanding the capital stock and surplus of the Company will not be reduced below \$4,750,000.00.

NOTE E—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income. No provision is required for federal excess profits tax, as exemption available exceeds net income of this Company subject to that tax.

MAISON BLANCHE REALTY COMPANY

BALANCE SHEET

JANUARY 31, 1942

ASSETS

CURRENT ASSETS:

Cash.....	\$	23,157.51
Accounts and notes receivable—tenants, less reserve of \$10,000.00 for doubtful....		14,947.22

TOTAL CURRENT ASSETS..... \$ 38,104.73

AFFILIATED COMPANY:

Account receivable—Maison Blanche Company.....		15,451.19
--	--	-----------

OTHER ASSETS:

Sundry accounts receivable and cash in closed bank, less reserve of \$22,556.79.....		6,843.95
--	--	----------

LAND, BUILDINGS AND EQUIPMENT—AT COST:

Land.....	\$1,266,616.45	
Buildings, fixtures, equipment, etc.....	\$2,599,835.55	
Less reserves for depreciation.....	1,023,860.67	1,575,974.88
		2,842,591.33

DEFERRED CHARGES:

Prepaid insurance, taxes and expenses.....		12,421.84
--	--	-----------

\$2,915,413.04

LIABILITIES

CURRENT LIABILITIES:

Note payable to bank.....	\$	50,000.00
Purchase mortgage note.....		10,000.00
Accounts payable.....		17,023.30
Accrued interest, taxes and wages.....		24,625.71
Federal and state taxes on income—estimated—Note B.....		7,000.00

TOTAL CURRENT LIABILITIES..... \$ 108,649.01

LONG-TERM DEBT:

First Mortgage Notes—4½%—maturing \$25,000.00 semi-annually on May 1st and November 1st, balance due May 1, 1944 (Principal installments postponed by mortgagee until maturity of mortgage).....	\$1,300,000.00	
Notes payable to bank—guaranteed by Maison Blanche Company — maturing \$50,000.00 May 15, 1942 and May 15, 1943; balance of \$100,000.00 April 3, 1944.....	\$200,000.00	
Less note due May 15, 1942 included in current liabilities as above.....	50,000.00	150,000.00
Purchase mortgage notes — 4½% — maturing \$10,000.00 annually on July 15, 1942 to July 15, 1949.....	\$ 75,000.00	
Less note due July 15, 1942 included in current liabilities—as above.....	10,000.00	65,000.00
		1,515,000.00

DEFERRED PAVING ASSESSMENT:

Payable in installments subsequent to January 31, 1943.....		1,993.62
---	--	----------

CAPITAL STOCK AND SURPLUS:

Capital stock:

Common—par value \$100.00 per share:

Authorized.....	\$750,000.00	
Less 375 shares in treasury.....	37,500.00	\$ 712,500.00

Earned surplus—Note A..... 577,270.41 1,289,770.41

\$2,915,413.04

NOTE A—Restricted in the amount of \$37,500.00 representing the par value of shares in the treasury.

NOTE B—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income. No provision is required for federal excess profits tax, as exemption available exceeds net income of this Company subject to that tax.

LOVEMAN,
And its Subsidiary Company,

CONSOLIDATED

JANUARY

ASSETS

CURRENT ASSETS:

Cash.....	\$ 295,801.80
Accounts receivable—trade (including \$304,580.24 of installment accounts) less reserve of \$83,709.23 for doubtful.....	925,081.65
Merchandise inventories, less reserve of \$132,522.23—Notes A and B.....	683,204.79
TOTAL CURRENT ASSETS.....	\$1,904,088.24

INVESTMENTS AND OTHER ASSETS:

Cash surrender value of life insurance.....	\$ 40,024.93	
Investments in other companies, less reserve of \$4,674.91.....	3,146.74	
Sundry accounts receivable, etc.....	5,814.08	
Investment in affiliated company—at quoted market price (422 shares common stock of City Stores Company).....	1,107.75	50,093.50

LAND, BUILDINGS AND EQUIPMENT—Note C:

Land.....	\$ 905,271.74	
Buildings, equipment, furniture, fixtures, etc... \$1,349,673.27		
Less reserves for depreciation..... 380,645.75	969,027.52	1,874,299.26

GOOD WILL—as stated on books..... 800,000.00

DEFERRED CHARGES:

Inventory of supplies, prepaid insurance, taxes, interest, etc....	52,668.44
	<u>\$4,681,149.44</u>

NOTE A—Inventories of merchandise on hand and in transit are valued on the retail inventory method, using the principle (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost. Such basis, which represents a change from the principle previously used, had the effect of reducing the amount stated for inventories at January 31, 1942 by \$96,860.09 and reducing net profit for the year then ended (after income, surtax and excess profits taxes) by approximately \$31,000.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, and is subject to acceptance by the Commissioner of Internal Revenue.

NOTE B—As of February 1, 1941 the Company adopted the practice of eliminating cash discounts from merchandise inventories and the amount stated in the accompanying balance sheet is after deducting such discounts. This change in practice has resulted in a charge of \$25,709.18 to earned surplus (being the amount of the discount applicable to prior years) and had the effect of reducing earnings for the fiscal year ended January 31, 1942 by approximately \$15,000.00.

JOSEPH & LOEB
Home Finance Corporation

BALANCE SHEET

31, 1942

LIABILITIES

CURRENT LIABILITIES:

First mortgage installment due August 7, 1942.....	\$	20,000.00
Accounts payable, including \$9,734.61 to affiliated companies		369,009.95
Accrued salaries, taxes and interest.....		38,894.75
Federal and state taxes on income (including Federal excess profits taxes of \$98,500.00)—estimated—Note G.....		234,027.97
TOTAL CURRENT LIABILITIES.....	\$	661,932.67

FIRST MORTGAGE—4%:

On land, buildings and fixtures—due February 7, 1948 with semi-annual installment payments of \$20,000.00 each due February 7 and August 7.....	\$	960,000.00
Less installment included in current liabilities as above.....		20,000.00
		<u>940,000.00</u>

RESERVES FOR CONTINGENCIES, PENSIONS, ETC.....		163,779.16
---	--	-------------------

CAPITAL STOCK AND SURPLUS:

Capital stock—par value \$100.00 per share:

Preferred stock—7% cumulative—redeemable at \$120.00 per share—Note E:

Authorized and issued....	\$1,000,000.00		
Less 7,403 shares in treasury	740,300.00	\$	259,700.00

Common stock:

Authorized.....	\$2,000,000.00		
Less unissued.....	378,000.00	1,622,000.00	\$1,881,700.00

Surplus—Notes E and F:

Capital surplus.....	\$	2,034.50		
Earned surplus.....		1,031,703.11	1,033,737.61	2,915,437.61
				<u>\$4,681,149.44</u>

NOTE C—Land stated at cost paid for in capital stock at time of organization; buildings, fixtures and equipment stated at cost less subsequent accruing depreciation.

NOTE D—All gross profit and carrying charges on installment sales are taken into income account in year in which sales are made.

NOTE E—Accumulated unpaid and undeclared dividends at January 31, 1942 on the 7% cumulative preferred stock amounted to \$169,670.67 of which \$136,677.34 is applicable to preferred shares not owned by City Stores Company or its subsidiaries.

NOTE F—Restricted in the amount of \$740,300.00 representing the par value of preferred shares held in treasury.

NOTE G—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income.

B. LOWENSTEIN & BROS., INC.

BALANCE SHEET

JANUARY 31, 1942

ASSETS

CURRENT ASSETS:

Cash.....		\$ 184,974.90
Accounts receivable—trade (including \$275,078.64 of installment accounts) less reserve of \$52,000.00 for doubtful.....		965,894.12
Merchandise inventories, less reserve of \$30,000.00—Notes A and B.....		880,472.07

TOTAL CURRENT ASSETS..... \$2,031,341.09

INVESTMENTS AND OTHER ASSETS:

Sundry investments—less reserve of \$2,500.00.....	\$ 1,164.00	
Employees and sundry accounts receivable.....	3,516.52	4,680.52

FIXTURES, EQUIPMENT AND IMPROVEMENTS—At Cost:

Store and office fixtures and equipment.....	\$ 1,139,219.86	
Less reserves for depreciation.....	688,140.14	\$ 451,079.72
Improvements to leased property.....	\$ 118,308.33	
Less reserve for amortization.....	50,091.62	68,216.71
		519,296.43

GOOD WILL—as stated on books..... 150,000.00

DEFERRED CHARGES:

Inventory of supplies, prepaid insurance, taxes and expenses.....		40,082.71
		<u>\$2,745,400.75</u>

LIABILITIES

CURRENT LIABILITIES:

Note payable to bank.....	\$ 17,000.00	
Accounts payable, including \$13,583.39 to affiliated companies.....		557,051.48
Accrued salaries, taxes and expenses.....		38,481.04
Federal taxes on income—estimated—Note E.....		88,600.00
TOTAL CURRENT LIABILITIES.....		<u>\$ 701,132.52</u>

NOTES PAYABLE TO BANK—Note D:

Due \$17,000.00 annually 1942 to 1944.....	\$ 51,000.00	
Less installment included in current liabilities as above.....	17,000.00	34,000.00

RESERVES:

For plate glass and parcel post losses.....		7,000.00
---	--	----------

CAPITAL STOCK AND SURPLUS:

Capital stock:

Common stock—no par value; declared value \$100.00 per share:	
Authorized 15,000 shares; 11,450 shares issued.....	\$ 1,145,000.00

Surplus:

Capital surplus.....	\$ 414,719.33	
Earned surplus (since October 1, 1938).....	443,548.90	858,268.23
		<u>2,003,268.23</u>
		<u>\$2,745,400.75</u>

NOTE A—Inventories of merchandise on hand and in transit are valued on the retail inventory method, using the principal (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost. Such basis, which represents a change from the principle previously used, had the effect of reducing the amount stated for inventories at January 31, 1942 by \$113,401.50 and reducing net profit for the year then ended (after income and surtax taxes) by approximately \$48,500.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, and is subject to acceptance by the Commissioner of Internal Revenue.

NOTE B—As of February 1, 1941 the Company adopted the practice of eliminating cash discounts from merchandise inventories and the amount stated in the accompanying balance sheet is after deducting such discounts. This change in practice has resulted in a charge of \$21,250.36 to earned surplus (being the amount of the discount applicable to prior years) and had the effect of reducing earnings for the fiscal year ended January 31, 1942 by approximately \$7,400.00.

NOTE C—All gross profit and carrying charges on installment sales are taken into income account in year in which sales are made.

NOTE D—An agreement in connection with the issuance of these notes provides, among other things, including provision respecting net current assets, that while any of such notes are outstanding the capital stock and surplus of the Company will not be reduced below \$1,500,460.28.

NOTE E—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income. No provision is required for federal excess profits tax, as exemption available exceeds net income of this Company subject to that tax.

KAUFMAN-STRAUS COMPANY, INC.

And its Subsidiary Company, Homecraft Finance Corporation of Louisville

CONSOLIDATED BALANCE SHEET

JANUARY 31, 1942

ASSETS

CURRENT ASSETS:

Cash.....	\$ 67,131.36
Accounts receivable—trade (including \$145,299.86 of installment accounts) less reserve of \$20,000.00 for doubtful.....	531,926.91
Merchandise inventories, less reserve of \$10,000.00—Notes A and B.....	550,219.51

TOTAL CURRENT ASSETS.....\$1,149,277.78

INVESTMENTS AND OTHER ASSETS:

Investments in other companies.....	\$ 503.00
Employee and sundry accounts receivable.....	1,269.43

LAND, EQUIPMENT AND IMPROVEMENTS:

Real estate and buildings—at cost.....	\$ 1,424.05	
Less reserve for depreciation.....	384.30	\$ 1,039.75
Furniture, fixtures, and equipment—Note D....	\$225,189.45	
Less reserve for depreciation.....	85,135.37	140,054.08
Improvements to leased buildings—Note D....	\$150,224.26	
Less reserve for amortization.....	34,849.90	115,374.36

GOOD WILL—as stated on books.....419,343.80

DEFERRED CHARGES:

Inventory of supplies, prepaid insurance, taxes, and expenses....	28,434.54
	<u>\$1,855,296.74</u>

LIABILITIES

CURRENT LIABILITIES:

Notes payable to banks.....	\$150,000.00
Notes payable for equipment purchased.....	2,095.52
Accounts payable, including \$3,316.72 to parent and affiliated companies.....	310,131.22
Accrued salaries, taxes and expenses.....	33,387.86
Federal and state taxes on income—estimated—Note G.....	51,500.00

TOTAL CURRENT LIABILITIES.....\$ 547,114.60

CAPITAL STOCK AND SURPLUS:

Capital stock:

Preferred stock—7% cumulative—par value \$100.00 per share—Note E:

Authorized and issued—45 shares.....\$ 4,500.00

Preferred stock—5% cumulative—par value \$100.00 per share—Note F:

Authorized 2,422 shares; issued 2,375 shares.....\$237,500.00

Less retired, 538 shares.....53,800.00

Common stock—par value \$100.00 per share: Authorized and issued 8,000 shares.....800,000.00

\$988,200.00

Surplus:

Capital surplus.....\$195,127.15

Earned surplus since February 1, 1940—

Notes E and F.....124,854.99

319,982.14

1,308,182.14

\$1,855,296.74

NOTE A—Inventories of merchandise on hand and in transit are valued on the retail inventory method, using the principle (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost. Such basis, which represents a change from the principle previously used, had the effect of reducing the amount stated for inventories at January 31, 1942 by \$50,929.62 and reducing net profit for the year then ended (after income and surtax taxes) by approximately \$32,500.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, and is subject to acceptance by the Commissioner of Internal Revenue.

NOTE B—As of February 1, 1941 the Company adopted the practice of eliminating cash discounts from merchandise inventories and the amount stated in the accompanying balance sheet is after deducting such discounts. This change in practice has resulted in a charge of \$8,578.75 to earned surplus (being the amount of the discount applicable to prior years) and had the effect of reducing earnings for the fiscal year ended January 31, 1942 by approximately \$4,600.00.

NOTE C—All gross profit and carrying charges on installment sales are taken into income account in year in which sales are made.

NOTE D—Stated at sound values as determined in January 1936, by The American Appraisal Company, plus subsequent additions at cost, less accruing depreciation and amortization.

NOTE E—Accumulated unpaid and undeclared dividends at January 31, 1942 on the 7% cumulative preferred stock amounted to \$3,465.00.

NOTE F—Under date of April 21, 1941 the Company obtained an option from an affiliate, City Stores Mercantile Company, to purchase from it, for retirement, 1,125 shares of 5% cumulative preferred stock of Kaufman-Straus Company, Inc. City Stores Mercantile Company agreed under the terms of the option to waive unpaid and accumulated dividends on the stock; therefore no dividends have been declared or paid on these shares during the past fiscal year. As of January 31, 1942 the Company had purchased and retired 150 shares of such stock under the option.

NOTE G—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income and for certain State of Kentucky unemployment tax which the Company is contesting. No provision is required for federal excess profits tax as exemption available exceeds net income of this Company subject to that tax.

CITY STORES MERCANTILE COMPANY

BALANCE SHEET

JANUARY 31, 1942

ASSETS

CURRENT ASSETS:

Cash.....		\$ 3,956.38
Dividend note of affiliated company due January 28, 1943.....		10.00
TOTAL CURRENT ASSETS.....		<u>\$ 3,966.38</u>

AFFILIATED COMPANIES:

Investments:

Preferred stock of Loveman, Joseph & Loeb —505 shares—at cost (pledged as collateral to notes payable).....	\$58,105.60	
Preferred stock of Kaufman-Straus Company, Inc.—975 shares—at cost (900 shares pledged as collateral to notes payable).....	48,750.00	
Common stock of Maison Blanche Company— 34 shares—at cost.....	5,140.00	\$111,995.60
Accounts receivable.....		<u>48,003.12</u>
		159,998.72

OTHER ASSETS:

Payment on account of purchase of shares of affiliated company.	\$ 10,830.00	
Employee and sundry accounts receivable.....	<u>1,763.08</u>	12,593.08

EQUIPMENT—NOTE A:

Furniture and fixtures.....	\$ 24,478.03	
Less reserve for depreciation.....	<u>20,275.74</u>	4,202.29

DEFERRED CHARGES:

Prepaid insurance, salaries and expenses.....		785.73
		<u>\$181,546.20</u>

LIABILITIES

CURRENT LIABILITIES:

Notes payable to bank—Guaranteed by City Stores Company— (505 shares preferred stock of Loveman, Joseph & Loeb and 900 shares preferred stock of Kaufman-Straus Company, Inc. pledged as collateral).....		\$ 97,550.00
Accounts payable, including \$52,108.76 to parent company.....		53,808.84
Accrued interest and insurance.....		<u>785.37</u>
TOTAL CURRENT LIABILITIES.....		\$152,144.21

CAPITAL STOCK AND SURPLUS:

Capital stock—par value \$100.00 per share:		
Authorized 1,250 shares; issued and outstanding 250 shares...	\$ 25,000.00	
Paid-in surplus.....	<u>4,401.99</u>	29,401.99
		<u>\$181,546.20</u>

NOTE A—Stated at cost paid for in capital stock at time of organization, plus subsequent additions at cost; less provision for accruing depreciation.

NOTE B—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal tax on income. No provision is required for federal excess profits tax, as exemption available exceeds net income of this Company subject to that tax.

PAID-IN SURPLUS

YEAR ENDED JANUARY 31, 1942

BALANCE AT JANUARY 31, 1941 AND JANUARY 31, 1942.....	<u>\$ 4,401.99</u>
No change during year.	

INCOME AND EXPENSES

YEAR ENDED JANUARY 31, 1942

INCOME:

Payments by subsidiary companies of City Stores Company for buying services—net.....	\$103,573.61	
Other.....	<u>6,000.00</u>	\$109,573.61
		109,573.61

EXPENSES (net)

BALANCE.....		<u>\$ — 0 —</u>
--------------	--	-----------------

KENVILLE REALTY COMPANY

BALANCE SHEET

JANUARY 31, 1942

ASSETS

ACCOUNT RECEIVABLE:

Affiliated company \$ 111.90

LAND—Note A 50,000.00

\$50,111.90

LIABILITIES

CURRENT LIABILITIES:

Real estate taxes \$ 328.25

Federal capital stock tax 2.50

TOTAL CURRENT LIABILITIES \$ 330.75

CAPITAL:

Capital stock—par value \$100.00 per share:

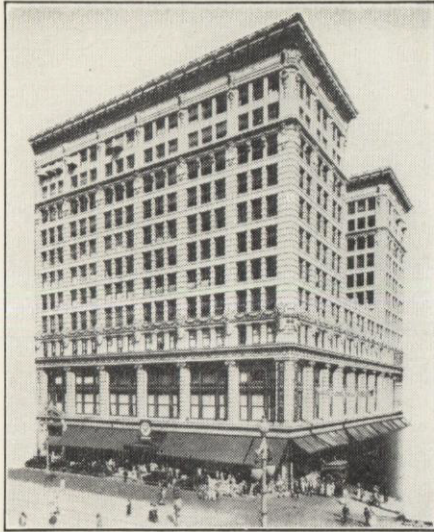
Authorized and issued 500 shares \$50,000.00

Earned surplus (deficit) (218.85) 49,781.15

\$50,111.90

NOTE A—Stated at cost of \$70,000.00 paid for in cash, less subsequent adjustment of \$20,000.00 against capital surplus as of January 31, 1934.

NOTE B—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal tax on income. No provision is required for federal excess profits tax, as exemption available exceeds net income of this Company subject to that tax.



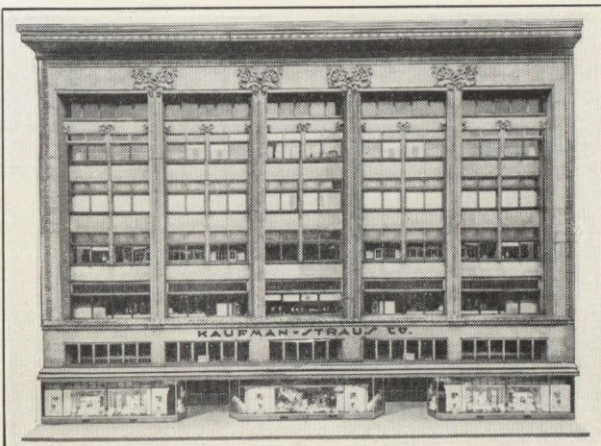
MAISON BLANCHE COMPANY
NEW ORLEANS, LA.



B. LOWENSTEIN & BROS., INC.
MEMPHIS, TENN.



LIT BROS.—PHILADELPHIA, PA.



KAUFMAN-STRAUS CO., INC., LOUISVILLE, KY.



LOVEMAN, JOSEPH & LOEB—BIRMINGHAM, ALA.

